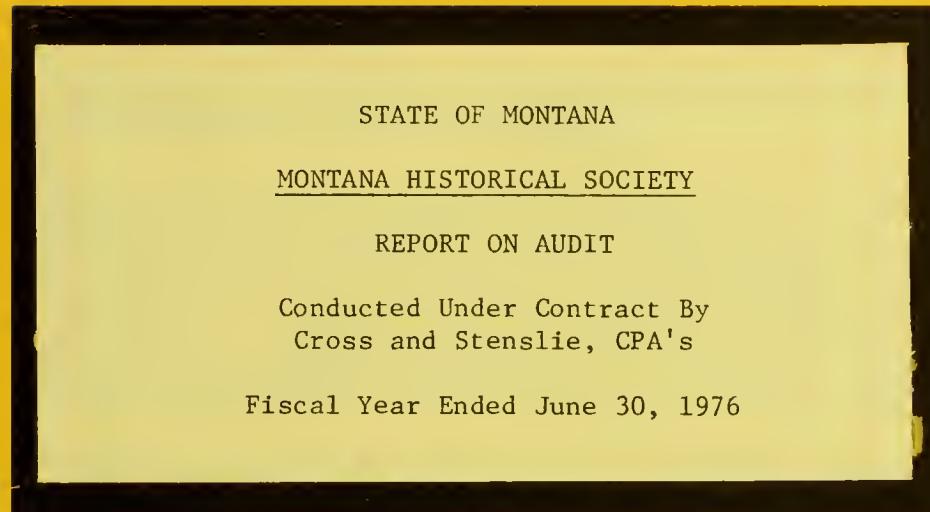


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STATE OF MONTANA
MONTANA HISTORICAL SOCIETY

REPORT ON AUDIT

Conducted Under Contract By
Cross and Stenslie, CPA's

Fiscal Year Ended June 30, 1976

A faint, out-of-focus background image of a classical building with four columns and a triangular pediment. The building is rendered in a light, yellowish-tinted color, blending with the overall background.

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GLENDIVE, MONTANA
PHONE 365-5221

JOHN M. CROSS, C.P.A.
CLYDE E. STENSLIE, C.P.A.

MEMBERS OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

The Legislative Audit Committee
of the Montana State Legislature

FEB 4 1977
MONTANA LEGISLATIVE AUDIT 1976

RE: Overview of the Audit of the Montana Historical Society
(An agency of the State of Montana)

We were engaged to perform a financial compliance audit of the various funds of the Montana Historical Society for the year ended June 30, 1976. The purpose of the audit was to (1) determine if the financial statements are presented in accordance with generally accepted accounting principles, (2) to review and test the Society's system of internal accounting control and procedures in order to suggest improvements, and (3) to determine whether the Society has complied with the applicable state laws and regulations.

We did not express an opinion on the financial statements because of unrecorded fixed assets, unrecorded accounts receivable and unrecorded deferred income. The report included a management letter which contained our recommendations for strengthening and improving accounting procedures and internal control. A synopsis of our suggestions follows:

Cash -

We recommend that the Society:

1. Incorporate the three outside bank accounts into the Statewide Budgeting and Accounting System.
2. Contact the bank that handles the Mastercharge account, monthly, obtaining the amount of the handling charge thereon and recording it in the check register.
3. File the necessary authorization forms with the Central Treasury for the bank at Libby.
4. Have the staff at the Libby Dam send the bank statements to the business office for safekeeping and auditing thereon.
5. Place all unused checks in a place inaccessible to persons not authorized to use them.
6. Attempt to institute an effective cash receipts system for the renting of the audio-tour phones.

Inventory -

We recommend that the Society:

1. Determine the value of it's physical inventory at the end of each fiscal year.

2. Inventory should be recorded on the Statewide Budgeting and Accounting System.

Investments -

The Society should deliver it's securities to the State Treasurer or a proper bank to act as custodian.

Accounts Receivable -

1. The Society should centralize the cash receipts and the accounts receivable function.
2. The dishonored checks general ledger control account should be adjusted to the subsidiary ledger balance.
3. The Society should contact the Department of Revenue for assistance in collecting all debts.
4. The Society should set up accounts receivable and record revenues at the time of sale rather than at the time of cash receipt.

Fixed Assets -

1. The Society should record fixed assets on the general ledger and design and document a system for a continuing physical control of these fixed assets.
2. The Society should review all capital projects to insure that they have been completed as specified by the legislature.

Security -

1. A system should be designed and implemented to insure to the maximum the safekeeping of the Society's pieces of art.
2. Insurance coverage should be reviewed periodically and updated to the maximum as provided for in the Society's budget.

Expense Vouchers -

1. Expense vouchers should be stamped "paid" when payment is made.

Deferred Income -

1. The Society should set up a deferred income account to account for revenues received for future magazine sales so as to properly match revenue and expenditures in the periods they are actually earned and incurred.

Payroll -

The payroll procedures would be strengthened by changing the distribution of the payroll warrants.

Stale Dated Warrants -

Establish a subsidiary record of stale dated warrants and balance such to the general ledger control.

Sick Leave -

The Society should require written substantiation for extended sick leave and approve sick leave only for authorized purposes.

We have discussed all of the above comments with the Director and business manager of the Montana Historical Society.

September 17, 1976
Glendive, Montana

CROSS & STENSLIE, CPA's



STATE OF MONTANA
Office of the Legislative Auditor



MORRIS L. BRUSSETT
LEGISLATIVE AUDITOR

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CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

January 11, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Montana
Historical Society for the year ended June 30, 1976.

The audit was conducted by Cross and Stenslie, Certified Public
Accountants, under a contract between the firm and our office. The
comments and recommendations contained in this report represent the
views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Montana Historical Society is included in the back of this report.

	<u>Page</u>
Incorporate into the Statewide Budgeting and Accounting System the three outside bank accounts.	5
<u>Agency Reply:</u> Partially concur. The State Treasurer has agreed that the present method is better for handling the credit card accounts. See page 28.	
Contact the bank that handles the Mastercharge account monthly, obtaining the amount of the handling charge thereon and recording it in the check register.	5
<u>Agency Reply:</u> Concur. See page 28.	
File the necessary authorization forms with the Central Treasury for the bank at Libby.	5
<u>Agency Reply:</u> Concur. See page 29.	
Have the staff at the Libby Dam send the bank statements to the business office for safekeeping and auditing thereon.	5
<u>Agency Reply:</u> Concur. See page 29.	
Place all unused checks in a place inaccessible to persons not authorized to use them.	5
<u>Agency Reply:</u> Concur. See page 29.	
Attempt to institute an effective cash receipts system to improve internal control in this area.	5
<u>Agency Reply:</u> Do not concur. See page 29.	
Determine the value of its physical inventory at the end of each fiscal year.	6
<u>Agency Reply:</u> Concur. See page 29.	
Inventory should be recorded on the Statewide Budgeting and Accounting System.	6
<u>Agency Reply:</u> Concur. See page 29.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Deliver these securities to the State Treasurer or a proper bank to act as custodian.	6
<u>Agency Reply:</u> Concur. See page 30.	
Centralize the cash receipts and the accounts receivable function.	6
<u>Agency Reply:</u> Concur. See page 30.	
Adjust the dishonored checks general ledger control account to the subsidiary ledger balance.	7
<u>Agency Reply:</u> Concur. See page 30.	
Contact the Department of Revenue for assistance in collecting all debts.	7
<u>Agency Reply:</u> Concur. See page 30.	
Set up amounts receivable and record revenues at the time of sale rather than at the time of cash receipt.	7
<u>Agency Reply:</u> Partially concur. See page 30.	
Conduct a physical inventory using sound inventory procedures and establish inventory records of all fixed assets for which they are accountable.	8
<u>Agency Reply:</u> Concur. See page 31.	
Establish a policy of taking an annual physical inventory and otherwise complying with other inventory procedures set forth in Management Memo 70-17.	8
<u>Agency Reply:</u> Concur. See page 31.	
Implement a numbering system to provide specific identification of individual capital items.	8
<u>Agency Reply:</u> Concur. See page 31.	
Co-ordinate the record keeping function of the fixed assets with the Department of Administration so that the Society receives a report from the Statewide Budgeting and Accounting System indicating the assets for which they are accountable and the identification number associated therewith.	8
<u>Agency Reply:</u> Concur. See page 31.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Follow up on all capital projects, making sure they have been completed as specified by the legislature.	8
<u>Agency Reply:</u> Concur. See page 31.	
Security could be improved by the hiring of more personnel and/or an electronic monitoring system. A Security Guard should be on duty in the Charles Russell Gallery at all times that the museum is open to the public. Another guard should be manning an electronic monitoring system, with a third guard moving about throughout the building. All guards should be in constant contact with each other via radio contact. There should also be a guard on duty one hundred per cent of the time during closing hours.	8
<u>Agency Reply:</u> Concur. See page 31.	
Review insurance coverage periodically and insure to the maximum allowed per the Society's budget.	9
<u>Agency Reply:</u> Concur. See page 31.	
To avoid duplicate payment, the expense vouchers should be stamped "paid" when payment is made.	9
<u>Agency Reply:</u> Concur. See page 32.	
Set up a deferred income account so as to properly match revenue and expenditures in the periods they are actually earned and incurred.	9
<u>Agency Reply:</u> Concur. See page 32.	
Payroll warrants coming from central payroll should not be returned to the person preparing the payroll, but delivered to another person who would be responsible for delivering the payroll warrants. This individual should personally deliver the warrants to each employee or have the employees pick up the warrants from this individual at a central point.	9
<u>Agency Reply:</u> Concur. See page 32.	
Establish a subsidiary record of stale dated warrants and periodically balance such to the control.	9
<u>Agency Reply:</u> Concur. See page 32.	
Require written substantiation for extended sick leave and approve sick leave only for authorized purposes.	10
<u>Agency Reply:</u> Concur. See page 33.	

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JOHN M. CROSS, C.P.A.
CLYDE E. STENSLIE, C.P.A.

MEMBERS OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

The Legislative Audit Committee
Montana State Legislature

We have examined the statement of assets, liabilities and fund balance of the Montana Historical Society (an agency of the State of Montana) as of June 30, 1976, and the related statements of revenues and expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraphs.

The Montana Historical Society has not maintained a complete record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements.

The accompanying financial statements do not include accounts receivable in the amount of approximately \$13,000. Further, the financial statements do not reflect the inventory of merchandise, which was valued at approximately \$140,000 on March 31, 1976. No inventory value was determined as of June 30, 1976.

The Montana Historical Society has unrecorded deferred income relating to magazine subscriptions the Society is obligated to produce in the future.

During the current year, the Society transferred funds totaling \$28,181.00. These transfers are improperly included in the statement of revenue and expenditures, rather than as fund transfers in the statement of changes in fund balance.

Because of the possible material effect of the aforementioned matters on the statements of assets, liabilities, and fund balance, the statement of revenue and expenditures and the statement of changes in fund balance, we do not express an opinion on the accompanying financial statements.

Cross & Stenslie

September 17, 1976
Glendive, Montana

MONTANA HISTORICAL SOCIETY
ORGANIZATION COMMENTS

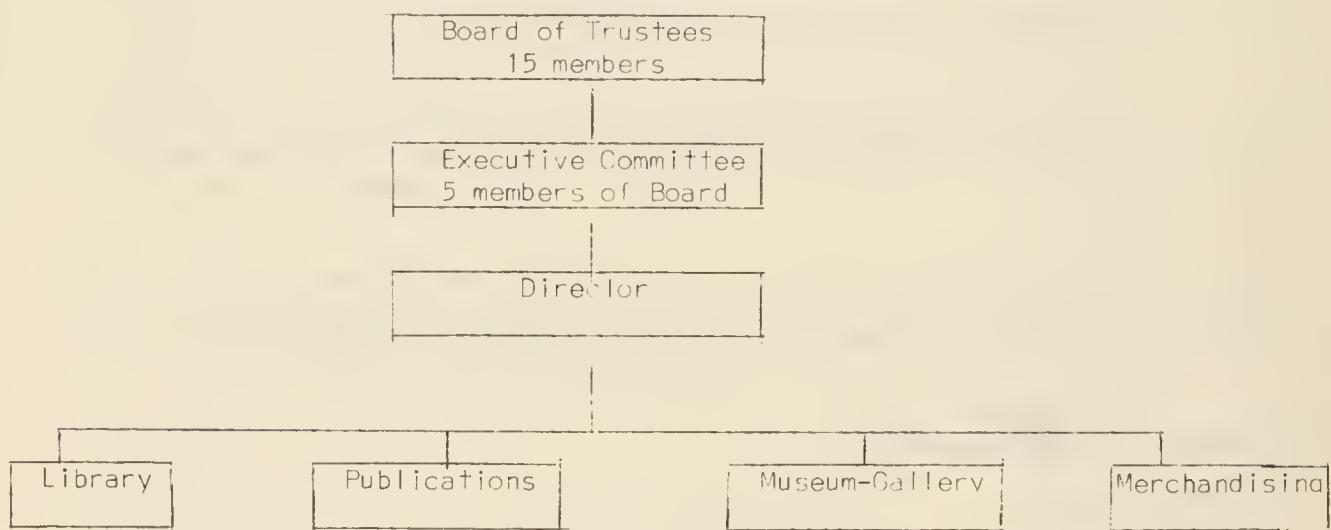
The Montana Historical Society was established by the Territorial Legislature in 1865. The Society continued when Montana became a state by the Montana State Legislature in 1891. The statutory authority by which it operates today is Section 44-516 of the Revised Codes of Montana of 1947. The Society is an agency of the state government and is designed for the use, learning, culture and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art archival and museum objects, historical places, sites and monuments and the custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments.

The government of the Society is vested in a fifteen member Board of Trustees who are appointed by the Governor with the consent of the State Senate for five-year terms.

Responsibility for the Society as a state agency remains with the Board of Trustees. Day-to-day operations are managed by the Society Director.

The work of the Society is divided into five areas: Administration, Library, Museum and Galleries, Publications and Merchandising.

Organizational Chart



MONTANA HISTORICAL SOCIETY
ADMINISTRATIVE OFFICIALS AND
BOARD OF TRUSTEES

ADMINISTRATIVE OFFICIALS

Director

Ken Korte

Business Manager

Dennis Sheehy

BOARD OF TRUSTEES

Mrs. Charles A. Bovey

July 1, 1977

Joe Medicine Crow

July 1, 1977

Eric J. Myhre

July 1, 1977

Manson Birley, Jr.

July 1, 1978

Nervell Gough, Jr.

July 1, 1978

E. E. MacGilvera

July 1, 1978

Mrs. A. C. MacDonald

July 1, 1979

Randall Swanberg

July 1, 1979

Wilbur P. Werner

July 1, 1979

Mrs. Louis W. Hagener

July 1, 1980

Henry S. Ruegamer

July 1, 1980

James H. Vanderbeck

July 1, 1980

Doris Marsolais Marshall

July 1, 1981

Joseph E. Reber

July 1, 1981

Anthony Dalich

July 1, 1981

Expiration Date
of Term

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MEMBERS OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

The Legislative Audit Committee
of the Montana State Legislature

The primary purpose of our examinations of the financial statements of the various funds of the Montana Historical Society was to enable us to form an opinion as to the assets, liabilities and fund balance of the various funds as of June 30, 1976, and the revenues and expenditures for the year then ended.

As a part of our examination, we reviewed and tested the system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of the evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions; mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the Montana Historical Society's system of internal accounting control for the year ended June 30, 1976 would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed the following conditions that we believe merit attention.

CASH

(A) The Society maintains three outside bank accounts not recorded in the Statewide Budgeting and Accounting System. Two of these accounts are located in Helena at the Bank of Montana and Northwestern Bank and Union Trust. These are used as clearing accounts for Mastercharge and Bank-American card sales, of which proper signatures and authorized transfers have occurred. Each month the BankAmerican bank account is reconciled and the handling charge debit memo amount is deducted from the check register.

The Mastercharge bank account is reconciled every three months when the statement is received. The service charge for handling the Mastercharge account is deducted monthly by the bank, but the Society has no knowledge of the amount charged because the statement is received quarterly. Problems arise in reconciling the account because the Society estimates the handling charge daily and differences occur from rounding.

The third bank account is at the First National Bank of Libby and is used to transfer sales revenues associated with the center at the Libby Dam to the office in Helena. There has been no authority given to the Society to maintain this account. The Society's Business Manager indicated that in the past he has audited this Libby Dam bank account. As the monthly statements are kept at the visitor's center at the Libby Dam, it was not made available to us for the auditing thereon.

Recommendation -

We recommend that the Society:

1. Incorporate into the Statewide Budgeting and Accounting System the three outside bank accounts.
2. Contact the bank that handles the Mastercharge account monthly, obtaining the amount of the handling charge thereon and recording it in the check register.
3. File the necessary authorization forms with the Central Treasury for the bank at Libby.
4. Have the staff at the Libby Dam send the bank statements to the business office for safekeeping and auditing thereon.

(B) The Helena bank accounts' unused checks are kept under the main lobby counter.

Recommendation -

Place all unused checks in a place inaccessible to persons not authorized to use them.

(C) The Society has an information desk in the lobby of the museum at which the clerk rents audio-tour phones. There is no control over cash receipts. The average daily summer sales amount to \$40-50.

Recommendation -

The Society should attempt to institute an effective cash receipts system to improve internal control in this area.

INVENTORY

The Society maintains perpetual inventory records on goods purchased for resale. However, the Society did not determine the value of it's physical inventory and/or total the inventory cards at the end of the fiscal year. The inventory is also not being reflected on the Statewide Budgeting and Accounting System.

Recommendation -

We recommend that the Society:

1. Determine the value of it's physical inventory at the end of each fiscal year.
2. Inventory should be recorded on the Statewide Budgeting and Accounting System.

INVESTMENTS

Section 79-201, R.C.M. 1947, states, in part, that "The State Treasurer shall be the custodian of all monies and securities of the state unless otherwise expressly provided by law...." This section goes on to state "Securities may be placed in safekeeping with banks subject to national supervision or Montana state examination and a safekeeping receipt may be accepted in lieu of the actual securities..." The Society has in its possession donated stock certificates, delivered to the State Treasurer or a proper custodian.

Recommendation -

The Society should deliver these securities to the State Treasurer or a proper bank to act as custodian.

ACCOUNTS RECEIVABLE

(A) The accounts receivable recording, billing, and collection processes are decentralized among the various society departments and are without adequate controls. Individual departments' accounts are not always reported to the accounting office, and consequently are not included in the Society's Statewide Budgeting and Accounting System financial statements. Money is received by the mail order department, the earphone counter, the magazine order department, the main lobby counter and the library. The library, magazine and merchandising departments maintain their own accounts receivable.

Recommendation -

We recommend that the society centralize the cash receipts and the accounts receivable function.

(B) The Society has in its possession only \$433.47 of the \$1,437.10 in dishonored checks as shown on its books. The balance have either cleared and have been posted to income or have been lost. It appears there has been no collection activity on these items, some dating back to June, 1973.

Section 84-7101 states that the Department of Revenue is authorized to provide a collection service for the general purpose of centralizing the collection of all debts owing to the State of Montana. It further states that subject to and in accordance with rules and regulations adopted by the department, the department shall render assistance in the collection of accounts owing to any state agency if all of the following procedures have been completed to the satisfaction of the department:

- (1) A state agency must make all reasonable efforts to collect money owed to it and must be determined that the money and any interest or penalties therefor are uncollectable.
- (2) Once a state agency has determined an account uncollectable, it shall certify thus to the Department of Revenue.
- (3) If the Department of Revenue finds that the debt is uncollectable, in accordance with the criteria of uncollectability, the Department will direct the agency to write off the debt and assign the debt to the Department of Revenue.

Recommendation -

- (1) The Society should adjust the dishonored checks general ledger control account to the subsidiary ledger balance.
- (2) In accordance with Section 84-7101 of the Revised Codes of Montana, the Society should contact the Department of Revenue for assistance in collecting all debts.

(C) The Montana Administrative Manual establishes the modified accrual basis of accounting as the state's basis of accounting. The MAM defines modified accrual basis as accounting for expenditures at the time valid obligations are incurred and accounting for revenues at the time the cash is received. The MAM also states that full accrual accounting will be permitted if the need justifies the application.

The Society has several types of revenue which are due at the end of the fiscal year but have not been received by year-end.

Recommendation -

We recommend that the Society set up amounts receivable and record revenues at the time of sale rather than at the time of cash receipt.

FIXED ASSETS

(A) Our examination of control, recording, and reporting procedures over fixed assets showed this to be an area of considerable weakness. The Society is responsible for the custody and administration of fixed assets but does not exercise satisfactory control as prescribed by management memo 70-17 which require:

- A physical inventory be taken each fiscal year.
- Inventory working papers be retained for subsequent audit purposes.
- All changes in fixed assets between inventory dates be recorded.

Additional items of concern are:

- The fixed assets are not under general ledger control.
- Responsibility for fixed asset items is not fixed with particular custodians.

Recommendation -

We recommend that the Society:

- (1) Conduct a physical inventory using sound inventory procedures and establish inventory records of all fixed assets for which they are accountable.
- (2) Establish a policy of taking an annual physical inventory and otherwise complying with other inventory procedures set forth in Management Memo 70-17.
- (3) Implement a numbering system to provide specific identification of individual capital items.
- (4) Co-ordinate the record keeping function of the fixed assets with the Department of Administration so that the Society receives a report from the Statewide Budgeting and Accounting System indicating the assets for which they are accountable and the identification number associated therewith.

(B) The Society also has received appropriations to damp-proof the basement and to repair the front entryway. The damp-proofing has been done, but the Society insists the repair work to the front entry has not been done. The Construction and Maintenance Division could not tell us whether the repair work was done or not.

Recommendation -

- (1) The Society should follow up on all capital projects, making sure they have been completed as specified by the legislature.

SECURITY

1. Security - The Society has many pieces of art valued in the hundreds of thousands of dollars. There is a security guard on duty during museum hours, but he moves throughout the building. Some of the artifacts could be damaged or stolen while unattended.

Recommendation -

Security could be improved by the hiring of more personnel and/or an electronic monitoring system. A Security Guard should be on duty in the Charles Russell Gallery at all times that the museum is open to the public. Another guard should be manning an electronic monitoring system, with a third guard moving about throughout the building. All guards should be in constant contact with each other via radio contact. There should also be a guard on duty one hundred per cent of the time during closing hours.

2. Insurance Coverage - The Society has a blanket type coverage on the museum artifacts, with each piece having a set value. However, some of the pieces could be termed priceless.

Recommendation -

Realizing the impossibility to insure the items at market value, the Society should review insurance coverage periodically and insure to the maximum allowed per the Society's budget.

EXPENSE VOUCHERS

When expense vouchers (form 101 or 103) are submitted for payment, no "paid" stamp is marked on the vouchers.

Recommendation -

To avoid duplicate payment, the expense vouchers should be stamped "paid" when payment is made.

DEFERRED INCOME

The cash received from magazine sales is recognized as revenue when the money is received, but with this sale the Society incurs a liability to publish the magazine for several years hence.

Recommendation -

The Society should set up a deferred income account so as to properly match revenue and expenditures in the periods they are actually earned and incurred. We realize doing such follows the full accrual accounting method, rather than the modified accrual accounting method. However, we feel the materiality of the deferred income liability dictates the change to the full accrual accounting method.

PAYROLL

Effective internal control over payroll includes separation of the functions of payroll preparation and warrant distribution. Currently, both functions are performed by the payroll clerk. In our opinion, this practice centers too much control in the hands of one individual.

Recommendation -

To strengthen internal control in the area of payroll, we suggest payroll warrants coming from central payroll should not be returned to the person preparing the payroll, but delivered to another person who would be responsible for delivering the payroll warrants. This individual should personally deliver the warrants to each employee or have the employees pick up the warrants from this individual at a central point.

STALE DATED WARRANTS

The Society has no subsidiary record to substantiate the recorded stale dated warrants. Stop payments are not issued on outstanding warrants. The warrants cannot be cashed after six months, and should be written off at the end of that period.

Recommendation -

Establish a subsidiary record of stale dated warrants and periodically balance such to the control.

SICK LEAVE

Section 59-1008, R.C.M. 1947, provides that state employees shall earn sick leave credits at the rate of 12 working days for each year of state employment. The law provides that sick leave credits may accrue without limitation and that employees shall be paid for one-fourth of their accumulated sick leave upon termination from state employment. Section 59-1008 also provides that the Department of Administration shall be responsible for the proper administration of sick leave and shall promulgate rules and regulations necessary to achieve uniform administration of sick leave and prevent the abuse therof. Rules and regulations promulgated are effective for all state employees.

Pursuant to Section 59-1008, R.C.M. 1947, the Department of Administration has issued sick leave regulations in Chapter 1-0300 of the Montana Administrative Manual. Section 1-0304.82 of the MAM defines sick leave as the necessary absence from duty caused when an employee has suffered illness, injury, pregnancy or pregnancy related illness, exposure to a contagious disease that requires quarantine, or absences necessary to receive medical or dental examination or treatment. In addition, MAM Section 1-0305.89 authorizes the use of sick leave when an employee's absence is necessary due to illness or death in his immediate family. The MAM establishes the following regulations concerning the use of sick leave.

- Agency directors are responsible for controlling the use of sick leave within their agencies (1-0304.73).
- Records of sick leave earnings and usage must be maintained in each agency. The records should contain sufficient detail to permit the discovery and correction of improper, repetitious, or excessive uses of sick leave (1-304.72).
- The employer may require written substantiation, in the form of a doctor's certificate, of sick leave usage (1-0304.88).
- Abuse of sick leave is cause for dismissal and forfeiture of lump sum sick leave payment. However, administrators must be able to substantiate charges of sick leave abuse (1-0304.94).
- Abuse of sick leave is defined as the use of sick leave for unauthorized purposes or the misrepresentation of the actual reason for charging an absence to sick leave (1-0304.94).

Our review of employees' sick leave usage indicated the potential for abuse of sick leave at the Society. Our testing indicated one case of possible abuse in this area.

Recommendation -

The Society should require written substantiation for extended sick leave and approve sick leave only for authorized purposes.

CONCLUSION

The contents of this report have been reviewed with the director and pertinent members of his staff. The Society's full written response follows our presentation of this report. We would like to extend our appreciation for the cooperation extended by all of those involved during the course of our engagement.

Cross & Stenslie

September 17, 1976
Glendive, Montana

FINANCIAL STATEMENTS

MONTANA HISTORICAL SOCIETY
ALL FUNDS
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1976

	<u>General Fund</u>	<u>Ear-Mark Revenue Account</u>
<u>ASSETS</u>		
Cash on hand	\$ 505	\$
Cash in State Treasury		1,087
Inter-fund loans receivable		
Advances to employees	329	
Accounts receivable - dishonored checks		
Reserve for encumbrances:		
Accrued expenditures	2,471	
Reverted appropriations	<u>594</u>	
Total assets	<u>\$ 3,899</u>	<u>\$ 1,087</u>
<u>LIABILITIES & FUND BALANCE</u>		
Accrued expenditures	\$ 2,471	1,392
Account for stale-dated warrants		533
Reserve for reverted appropriations	594	7,033
Inter-entity loans payable		
Fund balance (deficit)	<u>834</u>	<u>(7,871)</u>
Total liabilities and Fund balance	<u>\$ 3,899</u>	<u>\$ 1,087</u>

See Accompanying Notes to Financial Statements

<u>Federal and Private Revenue Accounts</u>				<u>Restricted Fund</u>	
<u>Donations</u>	<u>Library Special Projects</u>	<u>Libby Dam Project</u>	<u>Revolving Account</u>	<u>Agency Account</u>	<u>Casualty Loss</u>
\$ 1,419	\$ 453	\$ 8,423	\$ 8,660	\$ 16,519	\$ 6,259
16,000	11,500				
		219			
			1,437		
<u>\$ 17,419</u>	<u>\$ 11,953</u>	<u>\$ 8,642</u>	<u>\$10,097</u>	<u>\$ 16,519</u>	<u>\$ 6,259</u>
\$ 1,068	\$ 10,555	\$ 3,068	\$32,711 38	\$	\$
	295	8,856	10,294		
6,000	6,000	12,500	9,000		
<u>16,351</u>	<u>(4,897)</u>	<u>(15,782)</u>	<u>(41,946)</u>	<u>16,519</u>	<u>6,259</u>
<u>\$ 17,419</u>	<u>\$ 11,953</u>	<u>\$ 8,642</u>	<u>\$10,097</u>	<u>\$ 16,519</u>	<u>\$ 6,259</u>

MONTANA HISTORICAL SOCIETY
ALL FUNDS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1976

	<u>General</u> <u>Fund</u>	<u>Ear-Marked</u> <u>Revenue</u> <u>Account</u>
REVENUE AND INCOME	\$	\$
FUND TRANSFERS		16,000
APPROPRIATIONS	<u>236,089</u>	<u> </u>
Total revenue, income, fund transfers and appropriations	<u>236,089</u>	<u>16,000</u>
EXPENDITURES:		
Administration	80,233	
Library	131,026	
Museum	24,236	15,063
Libby Dam Project #2		
Magazine		
Merchandising	<u>235,495</u>	<u>15,063</u>
FUND TRANSFERS		
Total expenditures and fund transfers	<u>235,495</u>	<u>15,063</u>
EXCESS OF REVENUES OVER EXPENDITURES (EXPENDITURES OVER REVENUES)	<u>\$ 594</u>	<u>\$ 937</u>

See Accompanying Notes to Financial Statements

Federal and Private Revenue Accounts

<u>Donations</u>	<u>Library Special Projects</u>	<u>Libby Dam Project</u>	<u>Casualty Loss</u>	<u>Revolving Account</u>	<u>Agency Account</u>	<u>Total</u>
\$ 7,438	\$ 56,688	\$ 165,478	\$ 6,259	\$ 370,444	\$ 47,973	\$ 654,280
	181			12,000		28,181
						236,089
<u>7,438</u>	<u>56,869</u>	<u>165,478</u>	<u>6,259</u>	<u>382,444</u>	<u>47,973</u>	<u>918,550</u>
7,047	45,921	14,272				94,505
1,189		53				183,994
		108,328				40,541
						108,328
<u>8,236</u>	<u>45,921</u>	<u>619</u>	<u>---</u>	<u>124,709</u>	<u>124,709</u>	<u>124,709</u>
		<u>123,272</u>		<u>278,843</u>	<u>32,511</u>	<u>311,973</u>
				<u>403,552</u>	<u>32,511</u>	<u>864,050</u>
					<u>16,181</u>	<u>28,181</u>
<u>8,236</u>	<u>57,921</u>	<u>123,272</u>		<u>419,733</u>	<u>32,511</u>	<u>892,231</u>
\$ <u>(798)</u>	\$ <u>(1,052)</u>	\$ <u>42,206</u>	\$ <u>6,259</u>	\$ <u>(37,289)</u>	\$ <u>15,462</u>	\$ <u>26,319</u>

MONTANA HISTORICAL SOCIETY
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1976

	<u>General Fund</u>	<u>Ear-Marked Revenue Account</u>	<u>Veterans- Pioneers Memorial Building</u>
Balance, July 1, 1975	<u>\$ 769</u>	<u>\$ (1,835)</u>	<u>\$ 6,847</u>
Additions:			
Appropriations from the General Fund:			
For current year expenditures	236,089		
For prior year expenditures	2,764		
Revenue, income and transfers	.	16,000	
Increase to accounts receivable	65		
Revenue (prior years)	---	60	
Total additions	<u>238,918</u>	<u>16,060</u>	<u>---</u>
Deductions:			
Expenditures and transfers	235,495	15,063	
Reversions	594	7,033	
Expenditures (prior years)	<u>2,764</u>		<u>6,847</u>
Total deductions	<u>238,853</u>	<u>22,096</u>	<u>6,847</u>
Balance, June 30, 1976	<u>\$ 834</u>	<u>\$ (7,871)</u>	<u>\$ ---</u>

See Accompanying Notes to Financial Statements

Federal and Private Revenue Accounts

<u>Donations</u>	<u>Library Special Projects</u>	<u>Libby Dam Project</u>	<u>Casualty Loss</u>	<u>Revolving Account</u>	<u>Agency Account</u>
\$ 18,217	\$ (1,885)	\$ (46,526)	\$ ---	\$ 7,653	\$ 1,057
7,438	56,869	165,478	6,259	382,444	47,973
7,438	56,869	165,478	6,259	388,592	47,973
8,236	57,921	123,272		419,733	32,511
1,068	295	8,856		10,294	
	1,665	2,606		8,164	
9,304	59,881	134,734	---	438,191	32,511
\$ 16,351	\$ (4,897)	\$ (15,782)	\$ 6,259	\$ (41,948)	\$ 16,519

MONTANA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1976

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - All funds utilize a modified accrual basis of accounting.

The modified accrual basis of accounting followed is that in which revenues are recorded when received in cash, excepting those revenues susceptible to accrual, and expenditures are recorded at the time they are incurred.

Fund Accounting - The accounts of the Historical Society are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

Receivables - Receivables are not recorded on the Statewide Budgeting and Accounting System at the time of sale.

Merchandise - Inventories are expensed at the time of purchase.

General Fixed Assets - The Society does not maintain a record of its general fixed assets. Assets purchased are recorded as expenditures in the various funds in the year of purchase. Depreciation is accordingly not provided.

Deferred Income - The Society has deferred income relating to the magazine subscriptions the Society is obligated to produce in the future. This deferred income has not been recorded on the Statewide Budgeting and Accounting System.

Vacation and Sick Pay - Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The related expenditure is recorded when paid. Permanent employees are allowed to accumulate and carry-over a maximum of two years accumulation of vacation leave into a new calendar year. Upon termination, qualifying permanent employees are reimbursed for 100% of unused accumulated vacation leave and 25% of unused accumulated sick leave.

NOTE 2 - APPROPRIATIONS

Appropriations in the general fund are made by the legislature for operating purposes of the Montana Historical Society. Expenditures against these appropriations are funded by the corresponding funds at the state level.

NOTE 3 - FUND DESCRIPTION

General Fund - To account for all the Historical Society's revenues and expenditures not included in any of the other funds.

Ear-Marked Revenue Account - This fund is used to account for the revenues received from museum operations for use in the museum and galleries program.

(continued on the next page)

Federal and Private Revenue Accounts - To account for governmental and private grants received other than those grants for which a separate fund has been established and account for the expenditures against the grants.

Donations - This fund is used to account for the donations received by the Society and the expenditures incurred with these donations.

Library Special Projects - This fund is used to account for the special projects undertaken by the library. At this time the revenue from the special edition of the book "Not in Precious Metals Alone" and the grant from the American Revolution Bicentennial Commission for publication costs of the book are being accounted in this fund.

Libby Dam Project - This fund is used to account for the reimbursements from the Army Corps of Engineers, the revenue from sales of merchandise at the dam and the related expenditures for the museum and visitors center at the Libby Dam site in Northwestern Montana.

Casualty Loss Fund - This fund was established to account for the insurance proceeds from the burglary loss on September 22, 1974. These funds are restricted in that they can be used only for purchase of the stolen article or to pay the owner the insured value of the article.

Revolving Account - The fund is used to account for the revenue and expenditures related to the revenue from the sale of merchandise and magazines from the museum's merchandise center.

Agency Account - The fund is being used to account for the revenue and expenditures related to the consigned sales of various art pieces.

NOTE 4 - RETIREMENT PLANS

Employees at the Montana Historical Society are covered by Public Employees Retirement System. The plan is a contributory retirement plan and covers all employees of the Society working on a full-time basis and the seasonal employees after they have completed 90 working days. The Society's total retirement expense for the year ended June 30, 1976, was \$17,056.00.

NOTE 5 - GRANTS AND CONTRACTS

During the fiscal year the Society entered into grants and/or contracts per the following schedule.

- 1) American Revolution Bicentennial Commission - a \$10,000.00 contract for use in publishing the manuscript "Not In Precious Metals Alone"
- 2) Northwest Area Foundation - a \$2,500.00 grant to be expended on the Governors Oral History Project.
- 3) Montana Committee for the Humanities - \$5,593.00 grant to cover costs of 1975 Montana History Conference.
- 4) Corps of Engineers - The Society has entered into two contracts with the Army Corps of Engineers. The first of such contracts was to reimburse the Society for the building of displays at the Libby Dam Visitors' Center and the second was for reimbursement to the Society for the operations of such visitors' center.

CROSS & STENSLIE
CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL BUILDING - P. O. BOX 1388
GLENDALE, MONTANA
PHONE 365-5221

JOHN M. CROSS, C.P.A.
CLYDE E. STENSLIE, C.P.A.

MEMBERS OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON SUPPLEMENTARY INFORMATION

The primary purpose of our examination was to formulate an opinion on the basic financial statements taken as a whole. The following data, although not considered necessary for a fair presentation of the statements of assets, liabilities and fund balance and the related statements of revenues and expenditures and changes in fund balance, are presented for supplementary analysis purposes. In as much as we disclaimed an opinion on the basic financial statements, we disclaim an opinion on the supplementary data.

Cross & Stenslie

September 17, 1976
Glendive, Montana

MONTANA HISTORICAL SOCIETY

ALL FUNDS

STATEMENT OF REVENUE, INCOME AND APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 1976

	General Fund Estimated	Revenue Account Estimated	Ear-Marked		Federal and Private Revenue Accounts				
			Actual	Actual	Donations Estimated	Actual	Library Special Projects	Estimated	Actual
REIMBURSEMENTS									
Federal-Project Participation	\$	\$	\$	\$	\$	\$	\$	\$	\$
Corps of Engineers									
Miscellaneous									
Total									
Reimbursements									
SALE OF DOCUMENTS, MERCANDISE & PROPERTY									
Documents							16		
Merchandise and magazines									
Property									
Total sale of documents, merchandise & property									
RENTALS, LEASES AND ROYALTIES									
Royalties									
Total rentals, leases and royalties									
GRANTS, GIFTS, BEQUESTS, DONATIONS, AND LEGACIES									
Bequests and legacies									
Individuals									
Memorials									

Donations				
Individuals	514			102
Heritage fund		400,000		
Corporations		3,326		
General public		418		
Grants			546	
Federal				10,000
Private				2,500
Other				<u>5,594</u>
Total grants, gifts, bequests and donations				<u>18,742</u>
SERVICE FEES				
Administrative- sale of copies				<u>6</u>
Total service fees				<u>6</u>
MISCELLANEOUS				
Insurance proceeds				<u>1,733</u>
Other				<u>1,733</u>
Total miscellaneous				<u>3,543</u>
Total Revenue and Income		403,000	7,438	56,688
Fund transfers	<u>22,096</u>	<u>16,000</u>		181
Appropriations from the state	<u>236,089</u>	<u>236,089</u>		
Total revenue, income, transfers, and appropriations from the state	<u>\$ 236,089</u>	<u>\$ 236,089</u>	<u>\$ 22,096</u>	<u>\$ 403,000</u>
			<u>\$ 16,000</u>	<u>\$ 7,438</u>
				<u>\$ 56,869</u>
				<u>\$ 65,000</u>
				<u>\$ 165,478</u>

STATEMENT OF REVENUE, INCOME AND APPROPRIATIONS - page 2

	<u>Casualty Loss</u>		<u>Revolving Account</u>		<u>Agency Account</u>		<u>To+</u>
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>	
<u>REIMBURSEMENTS</u>							
Federal-Project Participation	\$	\$	\$	\$	\$	\$	
Corps of Engineers							
Miscellaneous							
Total							
Reimbursements							
<u>SALE OF DOCUMENTS, MERCANDISE & PROPERTY</u>							
Documents							
Merchandise and magazines							
Property							
Total sale of documents							
merchandise and property							
<u>RENTALS, LEASES AND ROYALTIES</u>							
Royalties							
Total rentals, leases and royalties							
<u>GRANTS, GIFTS, BEQUESTS, DONATIONS, AND LEGACIES</u>							
Bequests and legacies							
Individuals							
Memorials							

MONTANA HISTORICAL SOCIETY
ALL FUNDS
STATEMENT OF EXPENDITURES BY OBJECT
FOR THE YEAR ENDED JUNE 30, 1976

<u>Expenditures Object</u>	<u>Administration Program</u>	<u>Library Program</u>	<u>Museum Program</u>	<u>Libby Dam Project #2</u>	<u>Magazine Program</u>	<u>Merchandising Program</u>	<u>Total</u>
Personal Services							
Salaries	\$ 65,657	\$ 94,211	\$ 28,559	\$ 37,854	\$ 40,846	\$ 74,278	\$ 341,405
Employee benefits	8,206	12,314	4,141	4,463	5,201	9,613	17,778
Total	<u>73,663</u>	<u>106,525</u>	<u>32,700</u>	<u>42,317</u>	<u>46,047</u>	<u>83,891</u>	<u>355,183</u>
Operating Expenses							
Contracted services	10,987	43,620	1,655	30,531	57,793	20,641	165,228
Supplies and materials	2,421	8,356	2,875	4,713	1,127	4,915	24,407
Communications	2,433	1,399	941	2,499	4,920	8,621	20,813
Travel	2,373	1,198	673	6,014	55	1,026	11,339
Rent	519	438	196	2,972	180	323	4,628
Utilities							
Repairs and maintenance	448	736	879	596	420	770	3,849
Other expenses	557	4,019	436	1,098	77	3,724	9,911
Goods purchased for resale							
Total	<u>19,738</u>	<u>59,766</u>	<u>7,656</u>	<u>48,531</u>	<u>78,662</u>	<u>227,882</u>	<u>422,235</u>
Equipment and Capital Expenditures							
Equipment	1,104	16,796	185	17,480		200	35,765
Capital expenditures		907					907
Total	<u>1,104</u>	<u>17,703</u>	<u>185</u>	<u>17,480</u>		<u>200</u>	<u>36,672</u>
Transfers-Accounting Entity							
TOTAL EXPENDITURES	\$ 94,505	\$ 195,994	\$ 40,541	\$ 108,328	\$ 124,709	\$ 328,154	\$ 892,231

MONTANA HISTORICAL SOCIETY
ALL FUNDS
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 1976

	Administration Program	Library Program	Museum Program	Libby Dam Project #2	Magazine Program	Merchandising Program	Total
<u>General Fund</u>							
Appropriations and budget							
amendments	\$ 80,728	\$ 131,115	\$ 24,246				\$ 236,089
Expenditures	80,233	131,026	24,236				<u>235,495</u>
Unexpended balance	<u>495</u>	<u>89</u>	<u>10</u>				<u>594</u>
<u>ERA</u>							
Appropriations and budget							
amendments	\$ 22,096						\$ 22,096
Expenditures		15,063					<u>15,063</u>
Unexpended balance		<u>7,033</u>					<u>7,033</u>
<u>Donations</u>							
Appropriations and budget							
amendments	\$ 7,136	\$ 2,168					\$ 9,304
Expenditures	7,047	1,189					<u>8,236</u>
Unexpended balance	<u>89</u>	<u>979</u>					<u>1,068</u>
<u>Library Special Projects</u>							
Appropriations and budget							
amendments	\$ 58,215						\$ 58,216
Expenditures		57,921					<u>57,921</u>
Unexpended balance		<u>295</u>					<u>295</u>
<u>Vet-Pioneer Memorial Building</u>							
Appropriations and Budget							
amendment	\$ ---						\$ ---
Expenditures							<u>---</u>
Unexpended balance							<u>---</u>

<u>Libby Dam</u>				
Appropriations and budget				
amendments	\$ 14,997	\$ 57	\$ 116,300	\$ 132,128
Expenditures	<u>14,272</u>	<u>53</u>	<u>108,328</u>	<u>123,272</u>
Unexpended balance	<u>725</u>	<u>4</u>	<u>7,972</u>	<u>8,856</u>
<u>Casualty Loss</u>				
Appropriations and budget				
amendments	\$ 774	\$ 519	\$ 429,940	\$ 429,940
Expenditures	<u>774</u>	<u>519</u>	<u>429,732</u>	<u>429,732</u>
Unexpended balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Revolving Account</u>				
Appropriations and budget				
amendments	\$ 124,706	\$ 295,324	\$ 305,234	\$ 329,940
Expenditures	<u>124,709</u>	<u>295,324</u>	<u>10,210</u>	<u>10,207</u>
Unexpended balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Agency Account</u>				
Appropriations and budget				
amendments	\$ 32,511	\$ 32,511	\$ 32,511	\$ 32,511
Expenditures	<u>32,511</u>	<u>32,511</u>	<u>0</u>	<u>0</u>
Unexpended balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>TOTAL-ALL FUNDS</u>				
Appropriations and budget				
amendments	\$ 95,725	\$ 196,467	\$ 48,567	\$ 124,706
Expenditures	<u>94,505</u>	<u>195,994</u>	<u>40,541</u>	<u>124,709</u>
Unexpended balance	<u>1,220</u>	<u>473</u>	<u>8,026</u>	<u>0</u>

AGENCY REPLY



MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 449-2694 • HELENA, MONTANA 59601

January 5, 1977

RECEIVED

JAN 6 1977

MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
Capitol Building
Helena, Montana 59601

Dear Mr. Brusett:

Following is the opinion on the audit report as submitted by the firm of Cross and Stenslie of Glendive, Montana, as prepared by the administration of the Montana Historical Society. However, before discussion on this report, I wish to thank your office and particularly Mr. Jerry Smith for the guidance provided during the audit.

This audit was conducted under the direction of Mr. Clyde Stenslie of Cross and Stenslie, and considering the time spent in the agency and travel restrictions placed on his staff, we assume there was a valid effort made. This is the first State Government audit attempted by Mr. Stenslie and his knowledge of S.B.A.S. was limited.

We will now examine each recommendation individually and add our proposals for each, starting with Page 5

Recommendation 1-5 Incorporate into S.B.A.S. the three outside bank accounts.

Opinion: If it were possible we would incorporate these accounts into S.B.A.S., but two of these accounts are clearing accounts for credit cards bearing interest that cannot be handled by the State Treasurer's Office. It was agreed between the Montana Historical Society accounting division and the State Treasurer's Office that these self-balancing clearing bank accounts would eliminate much paper work and hassle. The third account is at the First National Bank of Libby. This account is used to deposit sales from our branch merchandise operation at the Libby Dam Visitors Center. After this cash is deposited a check in the same amount is issued and sent to our home office where it is then verified and deposited with the State Treasurer. We do agree with the auditors' suggestion; however, at this time the present method is the most efficient.

Recommendation 2-5 Contact the bank that handles the Mastercharge account monthly, obtaining the amount of the handling charge thereon and recording it in the check register.

Opinion: The agency concurs with this suggestion. However, we do keep a daily balance on these accounts which is reconciled to the bank when statements are received, and discrepancies between balances have been insignificant to this date.

Recommendation 3-5 File the necessary authorization forms with the Central Treasury for the bank at Libby

Opinion: The agency concurs with this suggestion.

Recommendation 4-5 Have the staff at the Libby Dam send the bank statements to the business office for safe keeping and auditing thereon.

Opinion: The agency concurs with this suggestion and in fact we have already started this policy.

Recommendation 5-5 Place all unused checks in a place inaccessible to persons not authorized to use them.

Opinion: The agency concurs and we will transfer these checks to a security vault.

Recommendation 6-5 The society should attempt to institute an effective cash receipts system to improve internal control in this area.

Opinion: Cash receipts in this case would be cumbersome and impossible to implement. When each audio phone is rented it is signed for by the customer. This registration book can be used as a check on cash receipts according to the number of items rented.

Page 6

Recommendation 1-6 Determine the value of its inventory at the end of each fiscal year

Opinion: A periodic inventory is taken at the end of each calendar year to check and correct our perpetual system. In the past, a periodic inventory has not been taken at fiscal year end, however, we will determine the inventory from the perpetual inventory files. It is extremely difficult to free the personnel to take a physical inventory at the end of a fiscal year, but we will prepare such an inventory.

Recommendation 2-6 Inventory shall be recorded on the S.B.A.S. system.

Opinion: The agency concurs and we will investigate the feasibility of such a move.

Recommendation 3-6 The society should deliver these securities to the State Treasurer or a proper bank to act as custodian.

Opinion: The agency concurs with this suggestion. The only stock certificate that has not been delivered to the State Treasurer or approved representative is ten shares of Proctor and Gamble stock with a par value of \$35.00. This will be transferred to the Treasurer's Office.

Recommendation 4-6 We recommend that the society centralize the cash receipts and the accounts receivable function.

Opinion: The agency concurs with this suggestion. We will do all we can with limited personnel to centralize these operations under the guidance of the accounting office.

Page 7

Recommendation 1-7 The society should adjust the dishonored checks general ledger control account to the subsidiary ledger balance.

Recommendation 2-7 In accordance with section 84-7101 of the Revised Codes of Montana, the society should contact the Department of Revenue for assistance in collecting all debts.

Opinion on 1-7 and 2-7: In regard to the suggestions covered in both of the previous recommendations, all attempts have been made to collect dishonored accounts. These accounts have now been balanced and all uncollectibles forwarded to the Department of Revenue.

Recommendation 3-7 We recommend that the society set up accounts receivable and record revenues at the time of sale rather than at the time of cash receipt.

Opinion: We feel that this would be an exceptional burden on staff time and accounting functions. When a sale is made it is recorded as a receivable on our records. At the time payment is received the receivable is reversed and the funds received are deposited with the State Treasurer. We do prepare accounts receivable aging sheets that are monitored by the Merchandise Manager and receivables are recorded and maintained.

Recommendation 1-8, 2-8, 3-8, 4-8

1-8 - Conduct a physical inventory using sound inventory procedures and establish inventory records of all fixed assets for which they are accountable.

2-8 - Establish a policy of taking an annual physical inventory and otherwise complying with other inventory procedures set forth in Management Memo 70-17.

3-8 - Implement a numbering system to provide specific identification of individual capital items.

4-8 - Co-ordinate the record-keeping function of the fixed assets with the Department of Administration so that the society received a report from S.B.A.S. indicating the assets for which they are accountable and the identification number associated therewith.

Opinion: The agency concurs. We also feel that this is an important aspect of business standards. We are now trying to shift personnel to allow us to devote time to this important project. We hope to complete a fixed inventory by February of 1977. A fixed asset inventory has not been adequately maintained in the past, but with new policy guidelines it will be established and effectively maintained.

Recommendation 5-8 The society should follow up on all capitol projects, making sure they have been completed as specified by the legislature.

Opinion: The agency concurs; however, we are not the administrator of such projects and the present administrative staff had no knowledge of such an agreement, but we will investigate the requirements of work to be done.

Recommendation 6-8 Security could be improved by the hiring of more personnel and/or an electronic monitoring system. A security guard should be on duty in the Charles Russell Gallery at all times that the museum is open to the public. Another guard should be manning an electronic monitoring system, with a third guard moving about throughout the building. All guards should be in constant contact with each other via radio contact. There should also be a guard on duty one hundred per cent of the time during closing hours.

Opinion: The agency totally concurs with this suggestion. We definitely need to strengthen security to protect art, artifacts, documents, personnel, visitors and property. We have made repeated attempts to receive additional security support, but to date all requests have been rejected.

Recommendation 1-9 Realizing the impossibility to insure the items at market value, the society should review insurance coverage periodically and insure to the maximum allowed per the society's budget.

Opinion: Insurance premiums have never been the responsibility of the agency until FY'77. Before this, these premiums were paid by the Insurance and Legal Division of the Department of Administration. We presently insure about 17-20% of our collections or 6 million dollars worth. The premium on this type of coverage is projected at 14 to 18 thousand dollars. We rely on appropriations from the O.B.P.P. to determine how much we can afford to spend for insurance coverage, and

all possible funds are funneled to insurance protection. We concur with this suggestion, but we have no control over amounts actually spent on insurance coverage.

Recommendation 2-9 To avoid duplicate payment, the expense vouchers should be stamped "Paid" when payment is made.

Opinion: The agency concurs with this suggestion. However, when an invoice is paid, copies are attached to the transfer warrant claim with one set forwarded to the Accounting Division and one copy maintained in house. Therefore, the chances for duplication are extremely slim.

Recommendation 3-9 The society should set up a deferred income account so as to properly match revenue and expenditures in the periods they are actually earned and incurred. We realize doing such follows the full accrual accounting method, rather than the modified accrual accounting method. However, we feel the materiality of the deferred income liability dictates the change to the full accrual accounting method.

Opinion: We basically concur with this suggestion, but deferred income in this case relates to the sale of magazine subscriptions for one and two year periods. We find it impossible to set up a full circle accounting system for this item without additional technical and professional staff. To account for 10,000 to 15,000 subscriptions in the manner suggested would require great amounts of staff time to prepare, establish and maintain policies. Therefore, though we concur with this suggestion it may be some time before we can establish such a reporting tool.

Recommendation 4-9 To strengthen internal control in the area of payroll, we suggest payroll warrants coming from central payroll should not be returned to the person preparing the payroll, but delivered to another person who would be responsible for delivering the payroll warrants. This individual should personally deliver the warrants to each employee or have the employees pick up the warrants from this individual at a central point.

Opinion: The agency concurs with this suggestion and we will initiate a policy based on this recommendation.

Recommendation 5-9 Establish a subsidiary record of stale dated warrants and periodically balance such to the control.

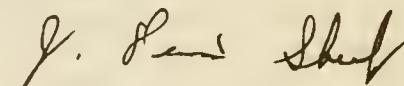
Opinion: Although we have little agency control over stale dated warrants, we have already established new control to monitor such warrants, so the agency does concur with this suggestion.

Recommendation 1-10 The society should require written substantiation for extended sick leave and approve sick leave only for authorized purposes.

Opinion: It has always been the policy of this agency to eliminate misuse of sick and annual leave, so we do concur with this recommendation.

These are our basic opinions on the recommendations put forth by Cross and Stenslie. It should be noted that we are making all possible adjustments to modernize and strengthen business and accounting functions within the Montana Historical Society. The M.H.S. has suffered from mismanagement in the past and many basic business activities overlooked. It is the aim of the present staff to make the business and accounting functions useful and informative to all internal and external forces concerned. We are grateful to have the audit show us some points that were possibly overlooked. We will make efforts to correct reasonable problem areas.

Sincerely,



J. Dennis Sheehy
Business Manager
Montana Historical Society

